

**Hawarden Community Hospital**  
**A Component Unit of the City of Hawarden, Iowa**

**Basic Financial Statements**  
**June 30, 2011 and 2010**

**Together with Independent Auditor's Report**

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**Hawarden Community Hospital**  
A Component Unit of the City of Hawarden, Iowa

**Officials**  
**June 30, 2011**

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	<b>Address</b>	<b>Term Expires</b>
<b>Board of Trustees:</b>		
Matt Hummel, President	Hawarden, Iowa	December 2011
Kathy Jacobs, Vice-President	Hawarden, Iowa	December 2011
Glea Hamik, Secretary	Hawarden, Iowa	December 2011
Denny Hulshof	Ireton, Iowa	December 2013
Stan Hoekstra	Hawarden, Iowa	December 2013
<b>Chief Executive Officer:</b>		
Brian Monsma	Hawarden, Iowa	Indefinite

## Independent Auditor's Report

To the Board of Trustees  
Hawarden Community Hospital  
Hawarden, Iowa:

We have audited the accompanying basic financial statements of Hawarden Community Hospital (Hospital), a component unit of the City of Hawarden, Iowa, as of and for the years ended June 30, 2011 and 2010, as listed in the table of contents. These financial statements are the responsibility of the Hospital's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards and provisions require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As explained in Note 1, the accompanying financial statements present only the Hospital Fund of the city of Hawarden, Iowa, and are not intended to present fairly the financial position of the city of Hawarden, Iowa, and the results of its operations, changes in fund balance and its cash flows in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Hawarden Community Hospital as of June 30, 2011 and 2010, and the results of its operations, changes in fund balances and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 21, 2011 on our consideration of the Hospital's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of the report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. Those reports are an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Management's discussion and analysis on page 3 through 6 is not a required part of the basic financial statements but is supplementary information required by the Government Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was made for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information, included in Exhibits 1 through 6, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

SEIM JOHNSON, LLP

Omaha, Nebraska,  
September 21, 2011.

**Management's Discussion and Analysis**  
**June 30, 2011 and 2010**

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Our discussion and analysis of Hawarden Community Hospital's financial performance provides an overview of the Hospital's financial activities for the fiscal years ended June 30, 2011 and 2010. Please read it in conjunction with the Hospital's financial statements, which begin on page 8.

**Financial Highlights**

- The Hospital's net assets increased in each of the past two years with a \$496,876 or a 15.1% in 2011 and a \$220,931 or 7.2% increase in 2010.
- The Hospital reported operating gain in 2011 of \$243,359 which was a \$333,168 increase over the operating loss in 2010 of \$(89,809). The operating loss in 2010 increased by \$74,508 or 486.9% from the income reported in 2009 of \$(15,301).
- Operating revenues increased by \$603,817 or 10.2% over the revenues reported in 2010 and by \$782,008 or 13.6% over the revenues reported in 2009.
- Nonoperating revenues and restricted gifts received decreased by \$(57,223) or 18.4% in 2011 compared to 2010 and a decrease of \$(42,028) or 16.5% in 2010 compared to 2009.

**Using This Annual Report**

The Hospital's financial statements consist of three statements; a Balance Sheet; a Statement of Revenues, Expenses, and Changes in Net Assets; and a Statement of Cash Flows. These financial statements and related notes provide information about the activities of the Hospital, including resources held by the Hospital but restricted for specific purposes by contributors, grantors, or enabling legislation.

*The Balance Sheet and Statement of Revenues, Expenses, and Changes in Net Assets*

Our analysis of the Hospital finances begins on page 4. The Balance Sheet and the Statement of Revenues, Expenses, and Changes in Net Assets report information about the Hospital's resources and its activities in a way that helps answer the question of whether the Hospital, as a whole, is better or worse off as a result of the year's activities. These statements include all restricted and unrestricted assets and all liabilities using the accrual basis of accounting. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

These two statements report the Hospital's net assets and changes in them. You can think of the Hospital's net assets, the difference between assets and liabilities, as one way to measure the Hospital's financial health, or financial position. Over time, increases or decreases in the Hospital's net assets are one indicator of whether its financial health is improving or deteriorating. You will need to consider other nonfinancial factors, however, such as changes in the Hospital's patient base and measures of the quality of service it provides to the community, as well as local economic factors to assess the overall health of the Hospital.

*The Statement of Cash Flows*

The final required statement is the Statement of Cash Flows. The statement reports cash receipts, cash payments, and net changes in cash resulting from operations, investing, and financing activities. It shows where cash came from and what the cash was used for. It also provides the change in cash balance during the reporting period.

*The Hospital's Net Assets*

The Hospital's net assets are the difference between its assets and liabilities reported in the Balance Sheet on page 7. The Hospital's net assets increased in each of the past two years by \$496,876 (15.1%) and \$220,931 (7.2%) in 2010, as you can see from **Table 1**.

**Hawarden Community Hospital**  
A Component Unit of the City of Hawarden, Iowa

**Management's Discussion and Analysis**  
**June 30, 2011 and 2010**

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*Table 1: Assets, Liabilities, and Net Assets*

	<u>2011</u>	<u>2010</u>	<u>2009</u>
<b>Assets:</b>			
Current assets	\$ 3,134,479	2,417,236	2,124,930
Capital assets, net	1,394,084	1,279,500	1,258,821
Other noncurrent assets	485,128	733,886	963,850
<b>Total assets</b>	<b>\$ <u>5,013,691</u></b>	<b><u>4,430,622</u></b>	<b><u>4,347,601</u></b>
<b>Liabilities:</b>			
Long-term debt outstanding	\$ --	224,466	342,270
Other current and noncurrent liabilities	1,225,861	915,202	935,308
<b>Total liabilities</b>	<b>\$ <u>1,225,861</u></b>	<b><u>1,139,668</u></b>	<b><u>1,277,578</u></b>
<b>Net assets:</b>			
Invested in capital assets, net of related debt	\$ 1,394,084	1,055,034	916,551
Restricted for capital acquisitions and operating activities	75,177	104,421	87,485
Restricted nonexpendable net assets	96,123	96,123	96,123
Unrestricted	2,222,446	2,035,376	1,969,864
<b>Total net assets</b>	<b>\$ <u>3,787,830</u></b>	<b><u>3,290,954</u></b>	<b><u>3,070,023</u></b>

In 2011, the total assets increased by \$583,069. A significant component of the change is an increase in the receivable from related party which increased \$175,256. This is where the Hawarden Community Clinic activity is recorded. The receivable from the clinic was \$552,234 in 2011 and \$376,978 in 2010.

In 2011, the total liabilities increased by \$86,193. The change was primarily due to the estimated third party payor settlements.

**Operating Results and Changes in The Hospital's Net Assets**

In 2011, the Hospital's net assets increased by \$496,876 or 15.1%, as shown in **Table 2**. This increase is made up of very different components.

**Hawarden Community Hospital**  
A Component Unit of the City of Hawarden, Iowa

**Management's Discussion and Analysis**  
**June 30, 2011 and 2010**

*Table 2: Condensed Statements of Revenues, Expenses and Changes in Net Assets*

	<u>2011</u>	<u>2010</u>	<u>2009</u>
<b>Operating Revenue:</b>			
Net patient service revenue	\$ 5,850,066	5,160,940	5,025,750
Other operating revenues	<u>691,854</u>	<u>777,163</u>	<u>734,162</u>
<b>Total operating revenue</b>	<b>6,541,920</b>	<b>5,938,103</b>	<b>5,759,912</b>
<b>Operating Expenses:</b>			
Salaries and benefits	2,627,734	2,434,299	2,431,306
Purchased services and other	3,135,592	3,155,880	2,928,441
Provision for bad debt	204,560	123,500	118,329
Depreciation and amortization	324,428	297,674	274,059
Interest	<u>6,247</u>	<u>16,559</u>	<u>23,078</u>
<b>Total operating expenses</b>	<b>6,298,561</b>	<b>6,027,912</b>	<b>5,775,213</b>
<b>Operating income (loss)</b>	<b>243,359</b>	<b>(89,809)</b>	<b>(15,301)</b>
<b>Nonoperating Revenues and Expenses</b>			
Joint venture loss, net	(122,864)	(71,617)	(65,444)
Gain on sale of property and equipment	--	1,100	--
Investment income	21,353	23,900	21,699
Sales tax revenue	278,820	258,303	277,808
Restricted Gifts, net	<u>76,208</u>	<u>99,054</u>	<u>108,514</u>
<b>Total nonoperating revenue (expenses), net</b>	<b>253,517</b>	<b>310,740</b>	<b>342,577</b>
<b>Increase in net assets</b>	<b>496,876</b>	<b>220,931</b>	<b>327,276</b>
<b>Net assets beginning of year</b>	<b>3,290,954</b>	<b>3,070,023</b>	<b>2,742,747</b>
<b>Net assets end of year</b>	<b>\$ <u>3,787,830</u></b>	<b><u>3,290,954</u></b>	<b><u>3,070,023</u></b>

Nonoperating Revenues and Expenses

Nonoperating revenues consist primarily of local option sales taxes, interest revenue, investment earnings and gifts, grants and bequests for the purchase of property and equipment.

The loss for the joint venture and clinic investment was \$(122,864) in 2011 compared to \$(71,617) in 2010. We continue to fund the clinic as part of our mission to provide for the health & wellness of all the people in our community.

**Management's Discussion and Analysis**  
**June 30, 2011 and 2010**

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**The Hospital's Cash Flows**

Changes in the Hospital's cash flows are consistent with changes in operating income and nonoperating revenues and expenses, discussed earlier. Cash flows provided by operating activities in 2011 increased compared to 2010 due to an increase in cash received from patients and third party payors.

**Capital Asset and Debt Administration**

*Capital Assets*

As of end of the year 2011, the Hospital had \$1,394,084 invested in capital assets, net of accumulated depreciation, as compared to \$1,279,500 in 2010 and \$1,258,821 in 2009, as detailed in Note 6 of the financial statements. In 2010, the hospital purchased depreciable capital assets costing \$234,083 compared to \$340,734 being spent in 2010. The hospital purchased computer system upgrades for \$89,450, patient lobby remodel \$27,890, hospital expansion costs \$27,347, surgery equipment \$62,761, inpatient bed \$6,162, parking lot renovations \$13,708 and telephone system upgrades \$6,765.

*Debt*

As of end of the year 2011, the Hospital had no loans or capital lease obligations outstanding. The Hospital had loans and capital lease obligations outstanding of \$224,466 at year-end 2010. No new loans in 2011. The Hospital's formal debt issuances, revenue notes, cannot be issued without approval of the Board of Directors.

**Contacting the Hospital's Financial Management**

This financial report is designed to provide our patients, suppliers, taxpayers, and creditors with a general overview of the Hospital's finances and to show the Hospital's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the CEO, at Hawarden Community Hospital, 1111 11<sup>th</sup> Street, Hawarden, Iowa 51023.



**Hawarden Community Hospital**  
A Component Unit of the City of Hawarden, Iowa

**Balance Sheets**  
**June 30, 2011 and 2010**

	<u>2011</u>	<u>2010</u>
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 1,362,443	1,031,599
Receivables -		
Patients, net of allowance for doubtful accounts of		
\$276,786 in 2011 and \$208,984 in 2010	919,973	751,940
Due from related party	552,234	376,978
Other	114,687	113,922
Inventories	80,598	64,590
Prepaid expenses	104,544	78,207
	<u>3,134,479</u>	<u>2,417,236</u>
Assets limited as to use -		
By board for capital improvements and endowments	378,398	629,826
By donor	99,846	99,712
	<u>478,244</u>	<u>729,538</u>
Capital assets, net	1,394,084	1,279,500
Other assets	6,884	4,348
	<u>6,884</u>	<u>4,348</u>
Total assets	\$ <u>5,013,691</u>	<u>4,430,622</u>
<b>LIABILITIES AND NET ASSETS</b>		
Current liabilities:		
Current portion of long-term debt	\$ --	124,398
Accounts payable -		
Mercy	56,163	105,099
Capital assets	--	13,708
Trade	141,345	122,612
Salaries, wages and accrued benefits payable	232,734	222,989
Payroll taxes withheld and accrued	28,178	23,789
Other accrued liabilities	59,932	28,812
Estimated third-party payor settlements	707,509	398,193
	<u>1,225,861</u>	<u>1,039,600</u>
Total current liabilities	1,225,861	1,039,600
Long-term debt, net of current portion	<u>--</u>	<u>100,068</u>
Total liabilities	<u>1,225,861</u>	<u>1,139,668</u>
Net assets:		
Invested in capital assets, net of related debt	1,394,084	1,055,034
Restricted:		
Expendable for capital acquisitions and operating activities	75,177	104,421
Nonexpendable permanent endowments	96,123	96,123
Unrestricted	2,222,446	2,035,376
	<u>3,787,830</u>	<u>3,290,954</u>
Total net assets	<u>3,787,830</u>	<u>3,290,954</u>
Total liabilities and net assets	\$ <u>5,013,691</u>	<u>4,430,622</u>

See notes to financial statements

**Hawarden Community Hospital**  
A Component Unit of the City of Hawarden, Iowa

**Statements of Revenue, Expenses and Changes in Net Assets**  
**For the Years Ended June 30, 2011 and 2010**

	<u>2011</u>	<u>2010</u>
UNRESTRICTED REVENUE:		
Net patient service revenue before provision for bad debt	\$ 5,850,066	5,160,940
Provision for bad debts	<u>(204,560)</u>	<u>(123,500)</u>
Net patient service revenue	5,645,506	5,037,440
Other revenue	<u>691,854</u>	<u>777,163</u>
Total revenue	<u>6,337,360</u>	<u>5,814,603</u>
EXPENSES:		
Salaries	2,064,824	1,932,013
Employee benefits	562,910	502,286
Purchased services and professional fees	2,088,347	2,080,121
Utilities	83,272	84,525
Supplies and other expenses	900,543	919,355
Depreciation	324,428	297,674
Insurance	63,430	71,879
Interest	<u>6,247</u>	<u>16,559</u>
Total expenses	<u>6,094,001</u>	<u>5,904,412</u>
OPERATING GAIN (LOSS)	<u>243,359</u>	<u>(89,809)</u>
NONOPERATING GAINS (LOSSES), NET:		
Joint venture and clinic investment loss	(122,864)	(71,617)
Gain on sale of property and equipment	--	1,100
Investment income	21,353	23,900
Sales tax revenue	278,820	258,303
Noncapital grants and contributions	<u>25,000</u>	<u>349</u>
Nonoperating gains, net	<u>202,309</u>	<u>212,035</u>
EXCESS OF REVENUE OVER EXPENSES	445,668	122,226
CAPITAL GRANTS AND CONTRIBUTIONS, NET	<u>51,208</u>	<u>98,705</u>
INCREASE IN NET ASSETS	496,876	220,931
NET ASSETS, BEGINNING OF YEAR	<u>3,290,954</u>	<u>3,070,023</u>
NET ASSETS, END OF YEAR	<u>\$ 3,787,830</u>	<u>3,290,954</u>

*See notes to financial statements*

**Hawarden Community Hospital**  
A Component Unit of the City of Hawarden, Iowa

**Statements of Cash Flows**  
**For the Years Ended June 30, 2011 and 2010**

	<u>2011</u>	<u>2010</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash received from patients and third party payors	\$ 5,786,789	5,182,778
Cash paid to employees for salaries and benefits	(2,613,600)	(2,440,372)
Cash paid to suppliers and contractors	(3,177,785)	(3,209,237)
Other receipts and payments, net	<u>516,598</u>	<u>590,459</u>
Net cash provided by operating activities	<u>512,002</u>	<u>123,628</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:		
Sales tax received	278,820	258,303
Noncapital grants and contributions	<u>25,000</u>	<u>349</u>
Net cash provided by noncapital financing activities	<u>303,820</u>	<u>258,652</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Purchase of property and equipment, net	(452,720)	(303,545)
Capital grants and contributions	51,208	98,705
Payments on long-term debt	(224,466)	(117,804)
Interest paid on long-term debt and capital lease obligations	<u>(6,247)</u>	<u>(16,559)</u>
Net cash used in capital and related financing activities	<u>(632,225)</u>	<u>(339,203)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Joint venture and clinic investment loss	(122,864)	(71,617)
Withdrawals from (deposits to) assets limited as to use	251,294	227,942
Interest on investments	21,353	23,900
Deposits (withdrawals) to other assets	<u>(2,536)</u>	<u>2,022</u>
Net cash provided by (used in) investing activities	<u>147,247</u>	<u>182,247</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	330,844	225,324
CASH AND CASH EQUIVALENTS - Beginning of year	<u>1,031,599</u>	<u>806,275</u>
CASH AND CASH EQUIVALENTS - End of year	<u>\$ 1,362,443</u>	<u>1,031,599</u>

*See notes to financial statements*

**Hawarden Community Hospital**  
A Component Unit of the City of Hawarden, Iowa

**Statements of Cash Flows (Continued)**  
**For the Years Ended June 30, 2011 and 2010**

	<u>2011</u>	<u>2010</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Operating Income (loss)	\$ 243,359	(89,809)
Adjustments to reconcile operating income to net cash provided by operating activities -		
Depreciation	324,428	297,674
Interest expense	6,247	16,559
(Increase) decrease in current assets -		
Receivables -		
Patients	(168,033)	188,548
Due from related party	(175,256)	(186,704)
Other	(765)	(57,368)
Inventories	(16,008)	822
Prepaid expenses	(26,337)	(12,280)
Estimated third-party payor settlements	--	--
Increase (decrease) in current liabilities -		
Accounts payable -		
Current portion of Mercy payable	(48,936)	8,138
Accounts payable	18,733	17,693
Salaries, wages and accrued benefits payable	9,745	(4,910)
Payroll taxes withheld and accrued	4,389	(1,163)
Other accrued liabilities	31,120	(10,362)
Estimated third-party payor settlements	309,316	(43,210)
Net cash provided by operating activities	<u>\$ 512,002</u>	<u>123,628</u>

*See notes to financial statements*

**Notes to Financial Statements**  
**June 30, 2011 and 2010**

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**(1) Summary of Significant Accounting Policies**

The following is a summary of significant accounting policies of Hawarden Community Hospital (Hospital). These policies are in accordance with accounting principles generally accepted in the United States of America. The Hospital is a city public hospital organized under Chapter 392 of the Code of Iowa and governed by a five member Board of Trustees elected for terms of four years.

**A. Reporting Entity**

The financial statements of the Hospital are used to account for the provisions of acute hospital and physician clinic services to the residents of the City of Hawarden and the surrounding area.

The Hospital's financial statements are an integral part of the City of Hawarden, Iowa. The accompanying financial statements are not intended to present fairly the financial position and changes in financial position of the City of Hawarden, Iowa, in conformity with accounting principles generally accepted in the United States of America.

For financial reporting purposes, the Hospital has included all funds, organizations, account groups, agencies, boards, commissions and authorities. The Hospital has also considered all potential component units for which it is financially accountable, and other organizations for which the nature and significance of their relationship with the Hospital are such that exclusion would cause the Hospital's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body, and (1) the ability of the Hospital to impose its will on that organization or (2) the potential for the organization to provide specific benefits to, or impose specific financial burdens on the Hospital. The Hospital has no component units which meet the Governmental Accounting Standards Board criteria.

The Budget Reconciliation Act of 1997 (Act) contained many provisions impacting Medicare reimbursement for Health Services. The Act established the Medicare Rural Hospital Flexibility Program to assist states and rural communities to improve access to essential health care services through limited service hospitals and rural health networks. During fiscal year 2000, the Hawarden Community Hospital Board of Trustees approved the Health Services' plan to obtain Critical Access Hospital (CAH) designation. CAH's are acute care facilities that provide emergency, outpatient and short-term inpatient services. Medicare reimburses CAH's on a reasonable cost basis.

The Hospital's application to become certified as a CAH was approved by the Iowa Department of Public Health and the certification was effective November 2, 2000.

**B. Industry Environment**

The health care industry is subject to numerous laws and regulations of federal, state and local governments. These laws and regulations include, but are not necessarily limited to, matters such as licensure, accreditation, government health care program participation requirements, reimbursements for patient services, and Medicare and Medicaid fraud and abuse. Violations of these laws and regulations could result in expulsion from government health care programs together with the imposition of significant fines and penalties, as well as significant repayments for patient services previously billed.

Management believes that the Hospital is in compliance with government laws and regulations as they apply to the areas of fraud and abuse. While no regulatory inquiries have been made which are expected to have a material effect on the Hospital's financial statements, compliance with such laws and regulations can be subject to future government review and interpretation as well as regulatory actions unknown or unasserted at this time.

**Notes to Financial Statements**  
**June 30, 2011 and 2010**

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*C. Basis of Presentation*

The balance sheet displays the Hospital's assets and liabilities, with the difference reported as net assets. Net assets are reported in three categories:

Invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation and reduced by outstanding balances for bonds, notes and other debt attributable to the acquisition, construction or improvement of those assets.

Restricted net assets result when constraints placed on net asset use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

Unrestricted net assets consist of net assets not meeting the definition of the two preceding categories. Unrestricted net assets often have constraints on resources imposed by management which can be removed or modified.

When both restricted and unrestricted resources are available for use, generally it is the Hospital's policy to use restricted resources first.

*D. Use of Estimates*

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements. Estimates also affect the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

*E. Measurement Focus and Basis of Accounting*

Basis of accounting refers to when revenue and expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made, regardless of the measurement focus applied.

The accompanying financial statements have been prepared on the accrual basis of accounting in conformity with accounting principles generally accepted in the United States of America. Revenue is recognized when earned and expenses are recorded when the liability is incurred.

In reporting the financial activity of its proprietary funds, the Hospital applies all applicable GASB pronouncements as well as the following pronouncements issued on or before November 30, 1989, unless these pronouncements conflict with or contradict GASB pronouncements: Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins of the Committee on Accounting Procedure.

*F. Cash and Cash Equivalents*

Cash and cash equivalents for purposes of the statements of cash flows include investments in highly liquid debt instruments with original maturities of three months or less.

*G. Patient Receivables*

Patient receivables are uncollateralized customer and third-party payor obligations. Unpaid patient receivables are not assessed interest.

Payments of patient receivables are allocated to the specific claim identified on the remittance advice or, if unspecified, are applied to the earliest unpaid claim.

**Notes to Financial Statements**  
**June 30, 2011 and 2010**

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The carrying amount of patient receivables is reduced by a valuation allowance that reflects management's best estimate of amounts that will not be collected from patients and third-party payors. Management reviews patient receivables by payor class and applies percentages to determine estimated amounts that will not be collected from third parties under contractual agreements and amounts that will not be collected from patients due to bad debts. Management considers historical write off and recovery information in determining the estimated bad debt provision.

*H. Assets Limited as to Use*

By Board of Trustees - Periodically, the Hospital's Board of Trustees has set aside assets for future capital improvements and endowments. The Board retains control over these assets and may, at its discretion, subsequently use them for other purposes.

By Donor – These funds are restricted for specified purposes as directed by the grantor or donor.

*I. Capital Assets*

Capital asset acquisitions in excess of \$5,000 are capitalized and recorded at cost. Depreciation is provided over the estimated life of each depreciable asset and is computed using the straight-line method.

Useful lives are determined using guidelines from the American Hospital Association Guide for Estimated Useful Lives of Depreciable Hospital Assets. Lives range by capital asset classification as follows:

Land improvements	10 to 50 years
Buildings and building improvements	10 to 50 years
Equipment, computers, and furniture	3 to 25 years

*J. Compensated Absences*

Paid time off (PTO) vests and may be carried forward by an employee in an amount not to exceed 360 hours. PTO expense is accrued as an expense and a liability as it is earned. PTO expenditures are recognized to the extent it is paid during the year and the vested amount is recorded as a current liability. Accrued PTO payable at June 30, 2011 and 2010 was \$124,007 and \$125,349, respectively.

*K. Statement of Revenue, Expenses and Changes in Net Assets*

For purposes of display, transactions deemed by management to be on-going, major or central to the provision of health care services are reported as operating revenue and expenses. Peripheral or incidental transactions are reported as nonoperating gains and losses.

*L. Net Patient Service Revenue*

Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payors, and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payors. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined.

**Notes to Financial Statements**  
**June 30, 2011 and 2010**

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*M. Grants and Contributions*

From time to time, the Hospital receives grants and contributions from individuals and private organizations. Revenue from grants and contributions (including contributions of capital assets) are recognized when all eligibility requirements, including time requirements are met. Grants and contributions may be restricted for either specific operating purposes or for capital purposes. Amounts that are unrestricted or that are restricted to a specific operating purpose are reported as nonoperating revenue. Amounts restricted to capital acquisitions are reported after nonoperating revenue and expenses.

*N. Charity Care*

The Hospital provides care to patients who meet certain criteria under its charity care policy without charge or at amounts less than its established rates. Because the Hospital does not pursue collection of amounts determined to qualify as charity care, they are not reported as revenue.

*O. Sales Tax Revenue*

Taxes are included in nonoperating gains when received and distributed by the City Treasurer. No provision is made in the financial statements for taxes levied in the current year to be collected in a subsequent year.

*P. Subsequent Events*

The Hospital considered events occurring through September 21, 2011 for recognition or disclosure in the financial statements as subsequent events. That date is the date the financial statements were available to be issued.

**(2) Cash and Investments**

The Hospital's deposits in banks at June 30, 2011 were entirely covered by federal depository insurance or the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The Hospital is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentality's; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the Board of Trustees; prime eligible bankers acceptances; certain high-rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; and certain joint investment trusts, and warrants or improvement certificates of a drainage district.

Credit Risk: The Hospital's investments are categorized to give an indication of the level of risk assumed by the Hospital at year end. The Hospital's investments are all category 1 which means that the investments are insured or registered or the securities are held by the Hospital or its agent in the Hospital's name. The Hospital's investments at June 30, 2011 and 2010 are as follows:

	<u>2011</u>	<u>2010</u>
Marketable equity securities, at fair value	\$ <u>--</u>	<u>11,502</u>

Interest Rate Risk: The Hospital's investment policy allows for the investment of funds with varying maturities as a means of managing its exposure to fair value losses arising from changes in interest rates, so long as the maturities are consistent with the needs and uses of the Hospital's funds.



**Notes to Financial Statements**  
**June 30, 2011 and 2010**

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Investment return, including return on assets limited as to use, for the years ended June 30, 2011 and 2010 is included in investment income on the Statements of Revenue, Expenses and Changes in Net Assets.

**(3) Net Patient Service Revenue**

The Hospital has agreements with third-party payors that provide for payments to the Hospital at amounts different from its established rates. A summary of the payment arrangements with major third-party payors follows:

**Medicare.** Inpatient acute care services rendered to Medicare program beneficiaries in a Critical Access Hospital are paid based on Medicare defined costs of providing the services. Inpatient nonacute services and certain outpatient services related to Medicare beneficiaries are paid based on a cost reimbursement methodology. The Hospital is reimbursed for cost reimbursable items at a tentative rate with final settlement determined after submission of annual cost reports by the Hospital and audits thereof by the Medicare fiscal intermediary. The Hospital's classification of patients under the Medicare program and the appropriateness of their admission are subject to an independent review by a peer review organization under contract with the Hospital. The Hospital's Medicare cost reports have been audited by the Medicare fiscal intermediary through June 30, 2010.

**Medicaid.** Inpatient acute services and outpatient services rendered to Medicaid program beneficiaries in a Critical Access Hospital are paid based on Medicaid defined costs of providing the services. Physician clinic services are paid based on fee schedule amounts. The Hospital is reimbursed for cost reimbursable items at tentative rates with final settlement determined after submission of annual cost reports by the Hospital.

The Hospital has also entered into payment agreements with certain commercial insurance carriers. The basis for payment to the Hospital under these agreements primarily includes discounts from established charges.

The Hospital reports net patient service revenue at estimated net realizable amounts from patients, third-party payors, and others for services rendered and includes estimated retroactive revenue adjustments due to future audits, reviews, and investigations. Retroactive adjustments are considered in the recognition of revenue on an estimated basis in the period the related services are rendered and such amounts are adjusted in future periods as adjustments become known or as years are no longer subject to such audits, reviews, and investigations.

Revenue from the Medicare and Medicaid programs accounted for approximately 53% and 6%, respectively, of the Hospital's net patient revenue for the year ended June 30, 2011 compared to 52% and 5%, respectively in 2010. Laws and regulations governing the Medicare and Medicaid programs are extremely complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term.

**(4) Composition of Patient Receivables**

Patient receivables as of June 30, 2011 and 2010 consist of the following:

	<u>2011</u>	<u>2010</u>
Patient accounts	\$ 1,281,250	1,005,415
Plus (less) estimated third-party contractual adjustments	(84,491)	(44,491)
Less allowance for uncollectibles	<u>(276,786)</u>	<u>(208,984)</u>
	<u>\$ 919,973</u>	<u>751,940</u>

**Hawarden Community Hospital**  
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**Notes to Financial Statements**  
**June 30, 2011 and 2010**

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The Hospital is located in Hawarden, Iowa. The Hospital grants credit without collateral to its patients, most of who are local residents and are insured under third-party payor agreements. The approximate mix of receivables from patients and third-party payors was as follows:

	<u>2011</u>	<u>2010</u>
Medicare	28%	32%
Medicaid	5	4
Blue Cross Blue Shield	12	15
Other third-party payors	28	20
Private pay	<u>27</u>	<u>29</u>
	<u>100%</u>	<u>100%</u>

**(5) Assets Limited as to Use**

By Board

Cash deposits and investments designated by the Board for future capital improvements, and endowments as of June 30, 2011 and 2010, are summarized as follows:

	<u>2011</u>	<u>2010</u>
Capital Improvements and Endowments -		
Cash and certificates of deposit	\$ 378,073	618,324
Marketable equity securities	<u>--</u>	<u>11,502</u>
	<u>\$ 378,073</u>	<u>629,826</u>

By Donor

Cash deposits and investments restricted by donor for future capital improvements, and endowments as of June 30, 2011 and 2010, are summarized as follows:

	<u>2011</u>	<u>2010</u>
Capital Improvements and Endowments -		
Cash and certificates of deposit	\$ 99,846	<u>99,712</u>

**Hawarden Community Hospital**  
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**Notes to Financial Statements**  
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**(6) Capital Assets, Net**

Capital asset additions, retirements and balances as of June 30, 2011 and 2010, are summarized as follows:

	<u>June 30, 2010</u>	<u>Additions</u>	<u>Transfers and Disposals</u>	<u>June 30, 2011</u>
Capital assets, not being depreciated:				
Land	\$ 19,384	215,528	--	234,912
Construction in progress	31,201	87,240	26,208	92,233
Total capital assets, not being depreciated	<u>50,585</u>	<u>302,768</u>	<u>26,208</u>	<u>327,145</u>
Capital assets, being depreciated:				
Land improvements	41,289	13,708	--	54,997
Hospital buildings	1,556,820	--	--	1,556,820
Fixed equipment	511,595	--	3,584	508,011
Major moveable equipment	1,903,860	148,743	8,333	2,044,270
Total capital assets, being depreciated	<u>4,013,564</u>	<u>162,451</u>	<u>11,917</u>	<u>4,164,098</u>
Less accumulated depreciation:				
Land improvements	30,435	1,793	--	32,228
Hospital buildings	1,085,875	38,378	--	1,124,253
Fixed equipment	403,433	13,065	3,584	412,914
Major moveable equipment	1,264,906	271,191	8,333	1,527,764
Total accumulated depreciation	<u>2,784,649</u>	<u>324,427</u>	<u>11,917</u>	<u>3,097,159</u>
Total capital assets, being depreciated, net	<u>1,228,915</u>	<u>(161,976)</u>	<u>--</u>	<u>1,066,939</u>
Total capital assets, net	<u>\$ 1,279,500</u>	<u>140,792</u>	<u>26,208</u>	<u>1,394,084</u>
	<u>June 30, 2009</u>	<u>Additions</u>	<u>Transfers and Disposals</u>	<u>June 30, 2010</u>
Capital assets, not being depreciated:				
Land	\$ 7,000	12,384	--	19,384
Construction in progress	65,966	26,207	60,972	31,201
Total capital assets, not being depreciated	<u>72,966</u>	<u>38,591</u>	<u>60,972</u>	<u>50,585</u>
Capital assets, being depreciated:				
Land improvements	41,289	--	--	41,289
Hospital buildings	1,555,320	1,500	--	1,556,820
Fixed equipment	516,033	--	4,438	511,595
Major moveable equipment	1,724,432	339,234	159,806	1,903,860
Total capital assets, being depreciated	<u>3,837,074</u>	<u>340,734</u>	<u>164,244</u>	<u>4,013,564</u>
Less accumulated depreciation:				
Land improvements	29,261	1,174	--	30,435
Hospital buildings	1,044,419	41,456	--	1,085,875
Fixed equipment	394,437	13,434	4,438	403,433
Major moveable equipment	1,183,102	241,610	159,806	1,264,906
Total accumulated depreciation	<u>2,651,219</u>	<u>297,674</u>	<u>164,244</u>	<u>2,784,649</u>
Total capital assets, being depreciated, net	<u>1,185,855</u>	<u>43,060</u>	<u>--</u>	<u>1,228,915</u>
Total capital assets, net	<u>\$ 1,258,821</u>	<u>81,651</u>	<u>60,972</u>	<u>1,279,500</u>

Construction in progress consists of computer software and other miscellaneous costs. These items are to be paid for out of operations.

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**(7) Mercy Accounts Payable**

Mercy Accounts Payable includes amounts due to Mercy Medical Services and Mercy Medical Center related to the Hospital's portion of financial support for the Hawarden Mercy Medical Clinic and Ireton Community Clinic and other professional and management fees. Mercy accounts payable as of June 30, 2011 and 2010 is summarized as follows:

	<u>2011</u>	<u>2010</u>
Mercy Medical Services for share of Hawarden Mercy Medical Clinic and Ireton Community Clinic operating support	\$ 29,168	60,755
Mercy Medical Center for professional and management services	<u>26,995</u>	<u>44,344</u>
	<u>\$ 56,163</u>	<u>105,099</u>

**(8) Long-Term Debt**

A summary of long-term debt at June 30, 2011 and 2010, is as follows:

	<u>Balance June 30, 2010</u>	<u>Borrowings</u>	<u>Payments</u>	<u>Balance June 30, 2011</u>	<u>Amounts Due Within One Year</u>
Bank Note (A)	\$ 41,761	--	41,761	--	--
Bank Note (B)	44,850	--	44,850	--	--
Bank Note (C)	32,255	--	32,255	--	--
Bank Note (D)	<u>105,600</u>	<u>--</u>	<u>105,600</u>	<u>--</u>	<u>--</u>
	<u>\$ 224,466</u>	<u>--</u>	<u>224,466</u>	<u>--</u>	<u>--</u>

  

	<u>Balance June 30, 2009</u>	<u>Borrowings</u>	<u>Payments</u>	<u>Balance June 30, 2010</u>	<u>Amounts Due Within One Year</u>
Bank Note (A)	\$ 77,977	--	36,216	41,761	38,450
Bank Note (B)	72,607	--	27,757	44,850	29,454
Bank Note (C)	47,048	--	14,793	32,255	15,666
Bank Note (D)	<u>144,638</u>	<u>--</u>	<u>39,038</u>	<u>105,600</u>	<u>40,828</u>
	<u>\$ 342,270</u>	<u>--</u>	<u>117,804</u>	<u>224,466</u>	<u>124,398</u>

- (A) In July 2006, the Hospital took out a note from Farmers State Bank in Hawarden for \$172,000 to be used for the purchase of property and equipment. This note has an interest rate of 6.0% and will be repaid over five years in monthly installments of \$3,326, beginning August 28, 2006. The note was extinguished in its entirety by hospital in 2011.
- (B) In December 2006, the Hospital took out a note from First State Bank in Hawarden for \$135,000 to be used for the purchase of property and equipment. This note has an interest rate of 5.95% and will be repaid over five years in monthly installments of \$2,611, beginning January 10, 2007. The note was extinguished in its entirety by hospital in 2011.

**Notes to Financial Statements**  
**June 30, 2011 and 2010**

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- (C) In May 2007, the Hospital took out a note from Farmers State Bank in Hawarden for \$74,184 for the purchase of property and equipment. This note has an interest rate of 5.75% and will be repaid over five years in monthly installments of \$1,426, beginning July 1, 2007. The note was extinguished in its entirety by hospital in 2011.
- (E) In December 2007, the Hospital took out a note from Peoples Bank in Hawarden for \$200,000 for the purchase of property and equipment. This note has an interest rate of 4.49% and will be repaid over five years in monthly installments of \$3,728, beginning January 5, 2008. The note was extinguished in its entirety by hospital in 2011.

A summary of interest expense on borrowed funds during the years ended June 30, 2011 and 2010 follows:

	<u>2011</u>	<u>2010</u>
Interest cost expense	\$ <u>6,247</u>	<u>16,559</u>

**(9) Professional Liability Insurance**

The Hospital carries a professional liability policy (including malpractice) providing coverage of \$1,000,000 for injuries per occurrence and \$3,000,000 aggregate coverage. In addition, the Hospital carries an umbrella policy which also provides \$1,000,000 per occurrence and aggregate coverage. These policies provide coverage on a claims-made basis covering only those claims which have occurred and are reported to the insurance company while the coverage is in force. In the event the Hospital should elect not to purchase insurance from the present carrier or the carrier should elect not to renew the policy, any unreported claims which occurred during the policy year may not be recoverable from the carrier.

**(10) Employee Retirement and Defined Benefit Pension Plan**

The Hospital contributes to the Iowa Public Employees Retirement System (IPERS) which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by State statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, PO Box 9117, Des Moines, Iowa 50360-9117.

Plan members are required to contribute 4.5% of their annual salary and the Hospital is required to contribute 6.95% of annual covered payroll. Contribution requirements are established by State statute. The Hospital's contribution to IPERS for the years ended June 30, 2011, 2010 and 2009 were \$139,603, \$123,484, and \$121,143, respectively, equal to the required contributions for each year.

**(11) Related Party Transactions**

Hawarden Community Clinic

Effective January 1, 2005, the Hospital and Mercy Medical Services (MMS) entered into a joint venture whereby each partner has a 50% sponsorship interest in Hawarden Community Clinic, LLC. (HCC). The Hospital and MMS share equally in the net income (loss) of HCC. The Hospital's share of HCC's 2011 and 2010 operating loss was \$109,580 and \$54,780, respectively, and is included in joint venture loss, net in the accompanying statements of revenue, expenses and changes in net assets.

The Hospital hires the employees of HCC and leases them back to HCC. Amounts received by the Hospital for expenses paid in 2011 and 2010 was \$328,013 and \$316,700, respectively, and is included in the accompanying statements of revenue, expenses and changes in net assets. The Hospital also received management fees from HCC totaling \$50,000 in 2011 and 2010, and monthly rent totaling \$27,600 for the years ended June 30, 2011 and 2010. These amounts are included in other revenue.

**Hawarden Community Hospital**  
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**Notes to Financial Statements**  
**June 30, 2011 and 2010**

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HCC owed the Hospital \$507,862 and \$367,212 at June 30, 2011 and 2010, respectively. These amounts are recorded in due from related party on the balance sheets.

*Ireton Community Clinic*

Effective June 1, 2008, the Hospital and Mercy Medical Services (MMS) entered into a joint venture whereby each partner has a 50% sponsorship interest in Ireton Community Clinic, LLC. (ICC). The Hospital and MMS share equally in the net income (loss) of ICC. The Hospital's share of ICC's 2011 and 2010 operating loss was \$13,284 and \$16,837, respectively, and is included in joint venture loss, net in the accompanying statements of revenue, expenses and changes in net assets.

The Hospital hires the employees of ICC and leases them back to ICC. Amounts received by the Hospital for expenses paid in 2011 and 2010 was \$39,630 and \$36,719, respectively, and is included in the accompanying statements of revenue, expenses and changes in net assets. The Hospital also received management fees from ICC totaling \$10,000 in 2011 and 2010. These fees are included in other revenue.

ICC owed the Hospital \$44,372 and \$9,766 at June 30, 2011 and 2010, respectively. These amounts are recorded in due from related party on the balance sheet.

See Note 7 regarding amounts due Mercy Medical Services.

**Patient Service Revenue**  
**For the Years Ended June 30, 2011 and 2010**

	2011				2010			
	Inpatient	Outpatient	Swing Bed	Total	Inpatient	Outpatient	Swing Bed	Total
<b>NURSING SERVICES:</b>								
Medical, surgical and obstetrics	\$ 218,750	254,136	--	472,886	184,154	213,489	--	397,643
Swing bed	--	--	161,536	161,536	--	--	129,368	129,368
Observation	--	83,002	--	83,002	--	64,931	--	64,931
	<u>218,750</u>	<u>337,138</u>	<u>161,536</u>	<u>717,424</u>	<u>184,154</u>	<u>278,420</u>	<u>129,368</u>	<u>591,942</u>
<b>OTHER PROFESSIONAL SERVICES:</b>								
Radiology	62,361	1,425,438	9,023	1,496,822	34,317	1,344,666	4,526	1,383,509
Laboratory	62,286	1,300,924	22,244	1,385,454	41,703	1,157,456	15,393	1,214,552
Physical therapy	8,739	660,317	31,292	700,348	6,117	617,584	26,078	649,779
Pharmacy	85,355	1,149,551	93,779	1,328,685	87,592	998,064	49,207	1,134,863
Emergency and outpatient service	5,556	452,411	--	457,967	2,523	374,422	--	376,945
Professional fees	27,555	287,708	2,959	318,222	21,269	219,633	--	240,902
Gastro-Intestinal	--	156,037	--	156,037	2,700	135,870	--	138,570
Respiratory therapy	60,279	61,004	38,756	160,039	25,402	38,322	14,056	77,780
Electrocardiology	5,200	117,862	600	123,662	2,722	97,606	--	100,328
Central services and supply	50,531	142,693	41,979	235,203	15,384	88,049	5,590	109,023
Intravenous therapy	344	(344)	--	--	16,851	34,682	7,504	59,037
Cardiac rehab	--	39,756	--	39,756	--	32,278	--	32,278
Occupational therapy	--	36,809	7,020	43,829	166	22,003	6,498	28,667
Speech therapy	--	10,211	1,627	11,838	125	4,495	261	4,881
Anesthesiology	--	20,582	--	20,582	--	17,048	--	17,048
Operating and recovery rooms	--	30,777	--	30,777	--	20,101	--	20,101
Dietary consulting	--	11,597	--	11,597	--	8,006	--	8,006
	<u>368,206</u>	<u>5,903,333</u>	<u>249,279</u>	<u>6,520,818</u>	<u>256,871</u>	<u>5,210,285</u>	<u>129,113</u>	<u>5,596,269</u>
<b>GROSS PATIENT SERVICE REVENUE</b>	<u>\$ 586,956</u>	<u>6,240,471</u>	<u>410,815</u>	<u>7,238,242</u>	<u>441,025</u>	<u>5,488,705</u>	<u>258,481</u>	<u>6,188,211</u>
<b>LESS:</b>								
Contractual allowances and other deductions, primarily Medicare and Medicaid				(1,388,176)				(1,027,271)
Provision for bad debts				(204,560)				(123,500)
<b>NET PATIENT SERVICE REVENUE</b>				<u>\$ 5,645,506</u>				<u>5,037,440</u>

**Other Operating Revenue**  
**For the Years Ended June 30, 2011 and 2010**

	<u>2011</u>	<u>2010</u>
Services provided to clinic	\$ 427,643	413,285
HRSA grant	134,462	147,380
Other	37,777	23,645
Medical office building rent	27,600	27,600
Specialty clinic rent	16,011	11,390
MediMate	13,765	15,244
Purchasing rebates	11,727	11,110
Meals	6,202	6,653
Medical records transcript fee	5,694	18,507
Occupational health consulting	4,905	7,526
Cholesterol screening	2,465	2,693
Wellness center dues	1,990	1,949
Vending	1,613	2,336
Emergency room/physical therapy contracted revenue	-	87,845
	<u>\$ 691,854</u>	<u>777,163</u>



**Department Expenses**  
**For the Years Ended June 30, 2011 and 2010**

	<b>2011</b>				<b>2010</b>			
	Salaries and Wages	Professional Fees and Purchased Services	Supplies and Other	Total	Salaries and Wages	Professional Fees and Purchased Services	Supplies and Other	Total
<b>NURSING SERVICES:</b>								
Medical and surgical	\$ 684,469	31,619	89,993	806,081	664,255	24,286	104,578	793,119
Observation	9,477	--	--	9,477	8,098	--	--	8,098
	<u>693,946</u>	<u>31,619</u>	<u>89,993</u>	<u>815,558</u>	<u>672,353</u>	<u>24,286</u>	<u>104,578</u>	<u>801,217</u>
<b>OTHER PROFESSIONAL SERVICES:</b>								
Physical therapy	49,507	352,787	18,563	420,857	46,397	460,884	27,498	534,779
Emergency room	53,315	798,016	4,123	855,454	66,582	754,920	4,941	826,443
Laboratory	191,643	160,186	91,142	442,971	186,321	130,970	95,526	412,817
Radiology	65,208	198,509	16,858	280,575	64,114	197,014	37,276	298,404
Hawarden community clinic	286,517	--	11,210	297,727	272,447	--	10,139	282,586
Pharmacy	3,950	34,749	352,568	391,267	5,616	23,391	324,035	353,042
Medical records	70,582	56,612	23,920	151,114	83,866	47,774	25,375	157,015
Respiratory therapy	523	16,819	481	17,823	290	11,107	612	12,009
Outpatient clinic	34,069	--	476	34,545	32,658	--	633	33,291
Central services and supply	1,013	--	48,555	49,568	133	--	35,537	35,670
Gastro-Intestinal	6,483	--	26,320	32,803	7,181	--	27,034	34,215
Occupational therapy	--	46,037	61	46,098	--	50,493	51	50,544
Intravenous therapy	19,664	--	--	19,664	14,986	--	3,906	18,892
Electrocardiology	1,581	4,128	--	5,709	2,941	3,705	(45)	6,601
Cardiac rehab	40,674	--	6,745	47,419	33,864	--	4,190	38,054
Home Health	--	12,150	--	12,150	--	13,514	--	13,514
Occupation health	251	--	264	515	--	--	482	482
Operating and recovery room	2,350	8,231	3,752	14,333	1,238	6,396	2,449	10,083
Anesthesiology	--	11,000	--	11,000	--	7,000	--	7,000
Speech therapy	--	23,670	--	23,670	--	4,096	--	4,096
Wellness center	--	--	296	296	--	--	547	547
	<u>827,330</u>	<u>1,722,894</u>	<u>605,334</u>	<u>3,155,558</u>	<u>818,634</u>	<u>1,711,264</u>	<u>600,186</u>	<u>3,130,084</u>
<b>GENERAL SERVICES:</b>								
Plant operation and maintenance	69,017	--	136,625	205,642	67,969	--	193,408	261,377
Dietary	114,767	2,950	20,951	138,668	117,424	2,587	21,647	141,658
Housekeeping	48,880	--	10,632	59,512	30,266	--	8,296	38,562
Laundry and linen	9,605	--	15,139	24,744	23,898	--	5,725	29,623
	<u>242,269</u>	<u>2,950</u>	<u>183,347</u>	<u>428,566</u>	<u>239,557</u>	<u>2,587</u>	<u>229,076</u>	<u>471,220</u>
<b>ADMINISTRATIVE SERVICES</b>	<u>301,279</u>	<u>330,884</u>	<u>105,141</u>	<u>737,304</u>	<u>201,469</u>	<u>341,984</u>	<u>70,040</u>	<u>613,493</u>
<b>NONDEPARTMENTAL:</b>								
Employee benefits	--	--	562,910	562,910	--	--	502,286	502,286
Depreciation and amortization	--	--	324,428	324,428	--	--	297,674	297,674
Insurance	--	--	63,430	63,430	--	--	71,879	71,879
Interest	--	--	6,247	6,247	--	--	16,559	16,559
	<u>--</u>	<u>--</u>	<u>957,015</u>	<u>957,015</u>	<u>--</u>	<u>--</u>	<u>888,398</u>	<u>888,398</u>
<b>GRAND TOTAL</b>	<u>\$ 2,064,824</u>	<u>2,088,347</u>	<u>1,940,830</u>	<u>6,094,001</u>	<u>1,932,013</u>	<u>2,080,121</u>	<u>1,892,278</u>	<u>5,904,412</u>

**Patient Receivables and Allowance for Doubtful Accounts  
For the Years Ended June 30, 2011 and 2010**

ANALYSIS OF AGING:

Days Since Discharge	2011		2010	
	Amount	Percent of Total	Amount	Percent of Total
0 - 30	\$ 646,919	50.49 %	597,938	59.47 %
31 - 60	185,523	14.48	138,250	13.75
61 - 90	82,185	6.41	65,756	6.54
91 - 120	90,518	7.06	37,561	3.74
Over 120	276,105	21.55	165,910	16.50
	<u>1,281,250</u>	<u>100.00 %</u>	<u>1,005,415</u>	<u>100.00 %</u>
Less:				
Allowance for doubtful accounts	(276,786)		(208,984)	
Allowance for contractual adjustments	<u>(84,491)</u>		<u>(44,491)</u>	
	<u>\$ 919,973</u>		<u>751,940</u>	

	2011	2010
NET DAYS REVENUE IN PATIENT ACCOUNTS RECEIVABLE	59.48 days	54.48 days

ALLOWANCE FOR DOUBTFUL ACCOUNTS:

Balance, beginning of year	\$ 208,984	249,667
Provision of uncollectible accounts	204,560	123,500
Recoveries of accounts previously written off	11,642	20,370
Accounts written off	<u>(148,400)</u>	<u>(184,553)</u>
Balance, end of year	<u>\$ 276,786</u>	<u>208,984</u>

**Inventory/Prepaid Expenses**  
**For the Years Ended June 30, 2011 and 2010**

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	<u>2011</u>	<u>2010</u>
INVENTORY:		
Pharmacy drugs	\$ 63,284	48,136
All other	<u>17,314</u>	<u>16,454</u>
	<u>\$ 80,598</u>	<u>64,590</u>
 PREPAID EXPENSES:		
Insurance	\$ 33,459	32,213
Service Contracts	64,051	40,885
Dues	7,034	5,109
Other	<u>--</u>	<u>--</u>
	<u>\$ 104,544</u>	<u>78,207</u>

**Financial and Statistical Highlights**  
**For the Years Ended June 30, 2011 and 2010**

	<u>2011</u>	<u>2010</u>
Patient days:		
Adult and pediatric -		
Medicare	183	159
Other	126	138
	<u>309</u>	<u>297</u>
Swing bed	<u>296</u>	<u>247</u>
Total	<u><u>605</u></u>	<u><u>544</u></u>
Patient discharges:		
Adult and pediatric -		
Medicare	74	57
Other	32	40
	<u>106</u>	<u>97</u>
Swing bed	<u>31</u>	<u>34</u>
Total	<u><u>137</u></u>	<u><u>131</u></u>
Average length of stay:		
Adult and pediatric -		
Medicare	2.5 days	2.8 days
Other	3.9 days	3.5 days
Swing bed	9.5 days	7.3 days
Emergency room visits	1,180	1,164
Specialty clinic visits	1,645	1,636
Number of employees - full-time equivalents		
Hospital	42.40	41.19
Clinic	<u>7.06</u>	<u>7.42</u>
	<u><u>49.46</u></u>	<u><u>48.61</u></u>

**Independent Auditor's Report on Internal Control Over Financial Reporting and  
on Compliance and Other Matters Based on an Audit of Financial Statements  
Performed in Accordance with *Government Auditing Standards***

To the Board of Trustees  
Hawarden Community Hospital  
Hawarden, Iowa:

We have audited the accompanying balance sheets of Hawarden Community Hospital (Hospital), as of June 30, 2011, and have issued our report thereon dated September 21, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Internal Control Over Financial Reporting**

In planning and performing our audit, we considered the Hospital's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Hospital's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Hospital's internal control over financial reporting.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, we identified certain deficiencies in internal control over financial reporting, described in the accompanying schedule of findings and questioned costs as items II-A-11 and II-B-11 that we consider to be a material weakness and significant deficiency in internal control over financial reporting. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we performed tests of the Hospital's compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Comments involving statutory and other legal matters about the Hospital's operations for the year ended June 30, 2011, are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the Hospital. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes. Prior year statutory comment, items II-A-09 and II-B-09 have not been resolved.

This Hospital's responses to findings identified in our audit are described in the accompanying schedule of findings and questioned costs. While we have expressed our conclusions on the Hospital's responses, we did not audit the Hospital's responses and, accordingly, we express no opinion on them.

This report, a public record by law, is intended solely for the information and use of the officials, employees, and constituents of Hawarden Community Hospital, and other parties to whom Hawarden Community Hospital may report. This report is not intended to and should not be used by anyone other than those specified parties.

*SEIM JOHNSON, LLP*

Omaha, Nebraska,  
September 21, 2011.

**Schedule of Findings and Questioned Costs**  
**For the Year Ended June 30, 2011**

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**Part I: Summary of the Independent Auditor's Results**

- a. An unqualified opinion was issued on the financial statements.
- b. One reportable condition and one material weakness in internal control over financial reporting were disclosed by the audit of the financial statements.
- c. The audit did not disclose any non-compliance which is material to the financial statements.

**Part II: Findings Related to the Financial Statements**

Instances of Non-Compliance:

No matters were reported.

**Material Weakness**

**II-A-11**

Criteria:	The design or operation of the Hospital's internal controls should allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements in the financial statements on a timely basis.
Condition:	We identified misstatements in the financial statements during the audit that were not initially identified by the Hospital's internal controls.
Effect:	Audit entries were required to adjust the net realizable value of accounts receivable and estimated third party settlements.
Cause:	Allowance and accrual balances requiring estimation and judgment were incorrectly recorded.
Recommendation:	The Hospital should review and revise its estimation process of the stated allowance and accrual accounts to ensure that financial statements are properly stated.
Response:	The Hospital concurs with the recommendation.
Conclusion:	Response accepted.

**Significant Deficiency**

**II-B-11**

Segregation of Duties:	One important aspect of internal controls is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. The limited number of office personnel prevents a proper segregation of accounting functions necessary to assure optimal internal control.
Recommendation:	Due to a limited number of administrative personnel, a lack of segregation of duties exists. Proper segregation of duties ensures an adequate internal control structure and, without this segregation, a greater risk of fraud and defalcation may exist. We recommend the Hospital continue to monitor and improve its segregation of duties.

**Hawarden Community Hospital**  
A Component Unit of the City of Hawarden, Iowa

**Schedule of Findings and Questioned Costs**  
**For the Year Ended June 30, 2011**

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Response: Management is aware of this deficiency in internal control and believes it is economically not feasible for the Hospital to employ additional personnel for the purpose of greater segregation of duties. The Hospital will continue to maintain and improve its segregation of duties.

Conclusion: Response accepted.

**Part III: Other Findings Related to Required Statutory Reporting**

Questionable Expenditure: We noted no expenditures that may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979.

Travel Expense: No expenditures of Hospital money for travel expenses of spouses of Hospital officials and/or employees were noted.

Business Transactions: The following transactions between the Hospital and Hospital officials:

Matt Hummel, Member Board of Trustees:

Hospital pharmacy supervision fee	\$	18,000
Hospital purchased of drugs and supplies from Businesses operated by Matt Hummel - Booth Pharmacy		<u>980</u>
Total	\$	<u><u>18,980</u></u>

Glea Hamik, Member Board of Trustees:

Wages paid for being a part-time employee during the year ended June 30, 2011	\$	31,529
Food purchased from stores owned by spouse - Fiesta Foods		<u>8,748</u>
Total	\$	<u><u>40,277</u></u>

Board Minutes: - No transactions were found that we believe should have been approved in the Board minutes but were not.

Deposits and Investments: We noted no instances of noncompliance with the deposit and investment provisions of Chapter 12B and Chapter 12C of the Code of Iowa and the Hospital's investment policy.

Publishing Requirements: An annual condensed statement of total receipts and expenditures is to be published in a newspaper of the city in which the Hospital is located according to Chapter 392.6 of the Code of Iowa.



**Hawarden Community Hospital**  
A Component Unit of the City of Hawarden, Iowa

**Summary Schedule of Prior Year Audit Findings**  
**For the Year Ended June 30, 2011**

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Finding	Status	Corrective Action Plan or Other Explanation
II-A-10	Net realizable value of accounts receivable and third party settlements	Unresolved, similar finding reported at II-A-11
II-B-10	Segregation of duties over accounting functions	Unresolved, similar finding reported at II-B-11

**Hawarden Community Hospital**  
A Component Unit of the City of Hawarden, Iowa

**Audit Staff**  
**For the Year Ended June 30, 2011**

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**This audit was performed by:**

- Brian D. Green, FHFMA, CPA, Partner
- Chase S. Manstedt, CPA, Staff Auditor
- J. Alex Morton, Staff Auditor